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C O N F I D E N T I A L SECTION 01 OF 03 TEL AVIV 001453

SIPDIS

NEA FOR BURNS/SATTERFIELD; NSC FOR ABRAMS/DANIN

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SUBJECT: ECONOMIC IMPLICATIONS OF GAZA PULL-OUT

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (B) & (D)

1. (C) Summary: We assess that an Israeli pull-out from the Gaza Strip in and of itself will not result in any major improvements in economic and humanitarian conditions in Gaza over the short to medium term. The manner in which the pull-out is executed could have an economic impact: leaving in the "dead-of-the night" is the worst case scenario. By contrast, a coordinated withdrawal, complete with certain guarantees from Israel, could set the stage for eventual economic recovery in Gaza. It will make greatest sense for the settlements and infrastructure to be handed over to a credible, trusted international custodian for a fixed transitional period. Israel should guarantee access to trade with Israel and external markets post-withdrawal. The ability of Palestinian laborers to work in Israel is less critical but should continue for humanitarian reasons. The donor community will need to retain robust assistance levels. In para 6, we offer specific "markers" we might use with the Israelis to influence their decision making on post-withdrawal economic issues.

Note: This cable is one of three messages by Embassy Tel Aviv with initial thinking about the implications of an Israeli withdrawal from Gaza. The other two cables address the political/institutional and military/security implications of withdrawal. End Summary.

Pull-Out Will Not Result in Economic Boom

2. (C) Economic improvements in Gaza resulting from more mobility as a result of a unilateral Israeli pull-out are likely to be marginal at best, at least in the immediate term. Overall, mobility restrictions have been fewer within Gaza than in the West Bank. The key for Gaza businesses has not been their ability to deliver products within the Strip but rather getting inputs in from Israel and abroad and exporting final products outside of Gaza. The pull-out will have some localized impact, especially as southerners are able to access the better labor markets of Gaza City and as people from currently enclosed communities are allowed freedom to engage in economically productive activities and to market and trade goods and services.

3. (C) We and our contacts do not believe an Israeli pull-out will result in increased foreign or domestic investment in the short to medium term. A critical factor in investment decisions is the security environment, and given the situation of the past few years, we are unlikely to see a post-Oslo-like investment bounce, as investors wait and see what happens on the ground. Continued donor assistance, particularly large infrastructure projects, will be required to be a motor for growth and sustenance of the Palestinian economy.

Economic Impacts of Co-ordinated
or Unilateral Pull-Out

4. (C) Economic stability and growth cannot be disaggregated from political stability. Gaza has been in a downward security spiral for the past several months with a series of high profile clashes and murders and an overall diminishing sense of law and order. Clearly most of the security problems within Gaza are due to internal Palestinian power struggles and we expect these to continue after the withdrawal. However, there are steps that Israel could take which would tip the scales towards more stability. A coordinated versus a unilateral withdrawal is key among those measures. "Leaving in the dead of night" is the worst possible scenario. As one contact put it, without coordination, people are likely to "throw themselves against the electrified fences" in order to gain control of the settlement infrastructure and resources. While this contact was exaggerating for effect, we do believe that a unilateral withdrawal would provoke a serious and probably violent competition for settlement resources. Moreover, unilateral withdrawal is also likely to strengthen rejectionist groups, thereby feeding into the competition which already exists between them and the PA. Clearly the current security

environment in Gaza contributes to the poor state of the economy. When we asked over ten economic experts for their opinions about post-withdrawal Gaza, all said that Gaza's economic future depends, first and foremost, on what happens politically. Israel's withdrawal should be managed in a way that promotes improved security, or at a minimum, does not actively contribute to further deterioration.

Trade Access is the Key to Economic Survival

15. (C) It is imperative that following the Israeli withdrawal trade access to Israel and other external markets be expanded and improved. If Israel were to implement a full economic disengagement and close the border, there would be an economic/social catastrophe. Karim Nashishibi, IMF representative, predicted this scenario would lead to "riots in the streets, food shortages, you name it." According to officials from both the World Bank and the Fund, were the GOI to cease allowing Gazans into Israel for work, there would be little impact on the broader economy -- this because the workers are so few compared to the population size. Nevertheless, this program does provide wages for roughly ten thousand individuals and their families per day. Israel therefore should be encouraged to continue this program on humanitarian grounds. In addition to a coordinated withdrawal, Israel should turn over the settlements and their infrastructure intact to a trusted, transparent, credible international custodian for a fixed transition period.

Keeping the Status Quo is Not Good Enough

16. (C) If Israel were to take the steps outlined above - coordinated withdrawal, keep borders open, and continue allowing workers into Israel - we could expect a continuation of the grim status quo. However unemployment at over 30 percent and poverty in excess of 60 percent is not sustainable and maintaining the status quo should not/not be our goal. We offer the following suggestions as "markers" that Washington might wish to use in discussing withdrawal plans with GOI interlocutors:

1A. Trade

-- Ensure access to external markets (including the West Bank) and ability to import inputs and other goods. Specifically, improved operations at Karni crossing, re-opening the airport, including building cargo facilities and reinvigorating work on Gaza seaport.

-- Work to expand trade with Egypt and region as a whole.

-- Establish infrastructure and systems to allow goods to pass through Rafah.

1B. Investment/General Growth

-- Agree to Gaza gas project.

-- Re-allow Israeli investors into the Gaza Industrial Estate with appropriate security arrangements. Consider having a third party private company take over logistics and security at Karni and the GIE in order to improve efficiency and address Israeli security concerns.

-- Continue robust donor assistance, particularly investments in infrastructure.

-- Allow fishing along length of Gaza Strip up to full 20 nautical miles stipulated by Oslo.

-- Ensure complete internal freedom of movement.

1C. Settlement Disposition

-- Coordinate the pull-out with a group comprised of PA officials, civil society, and international actors.

-- Turn over the settlements to a credible, trusted international custodian for a fixed transitional period.

-- Turn over settlement infrastructure intact. Don't "scorch the earth."

-- Facilitate continuation of existing marketing and

transport arrangements for
goods produced in settlements

1D. Economic Cooperation

-- Continue and improve current coordination on
trans-national issues such as
water and electricity.

-- Continue/strengthen cross-border industrial parks.

-- Continue, and ideally, increase the number of workers in
Israel.

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KURTZER